STRATEGY – CHINA

Alpha Picks: June Conviction Calls

After a steeper-than-expected pullback in May, MSCI China's and HSI's 12-month forward PE have fallen to a relatively attractive 9.7x and 8.7x respectively. As the non-manufacturing PMI remains in expansionary zone, we expect better macro data ahead to provide the catalyst for a rebound. Overall, we increase exposure to oversold sectors, ie consumer and TMT; add COSCO Shipping Port, KE Holdings, Kuaishou and Kweichow Moutai to our BUY list and Great Wall Motor to our SELL list.

WHAT'S NEW

- **Review of May.** While we had expected increased volatility and downside risk in May, the decline of 9.0% mom and 8.3% mom for MSCI China and HSI respectively was steeper than expected. Concerns on China's slowing growth led to accelerated funds outflow, which saw MSCI China trading at a 33% valuation discount to Emerging Asia, similar to levels at end-Oct 22. For the month, BYD (1211 HK/BUY) was the best performer among our stock picks, having increased 5.7% in May 23.
- As of end-May 23, MSCI China and HSI were trading relatively attractively at 12m forward PE of 9.7x and 8.7x respectively. We opine that the markets are oversold as the non-manufacturing PMI has stayed in the expansionary zone, confirming that the reopening rebound remains on track. We expect the macro data to stabilise in the months ahead, providing the catalyst of a rebound. Hence, we like oversold sectors like consumer and TMT and are thus adding COSCO Shipping Port, KE Holdings, Kuaishou, Kweichow Moutai to our BUY list and Great Wall Motor to our SELL list.

ACTION

- **Add COSCO Shipping Port to our BUY list** as we expect the earnings of this regional transportation giant to bottom out after the slow Q1, and its fundamentals indicate a cheap valuation with good dividends.
- **Add Great Wall Motor to our SELL list** as we become pessimistic about Great Wall Motor's future monthly sales, after its disappointing performance in 2Q23 and potential price cuts in the future.
- **Add KE Holdings to our BUY list** as we believe KE Holdings' revenue will surge in Q2, stimulated by positive housing policies and increasing household incomes.
- **Add Kuaishou to our BUY list** as we anticipate a resilient growth in Kuaishou's live-streaming and ad recovery momentum, driven by its improving algorithms to reach large audiences and the lifting of online platform regulations.
- **Add Kweichow Moutai to our BUY list** as the upcoming mid-autumn festival and national day holidays will lead to increasing wholesale prices and demand for Baijiu.
- **Take profits on** CR Beer (291 HK) from our BUY list and Weimob (2013 HK) from our SELL list.
- **Cut losses on** Alibaba (9988 HK), CTGDF (601888 CH), Sands China (1928 HK), Trip.com (9961 HK) and Tongcheng Travel (780 HK).
- **Maintain BUY** on Aier Eye Hospital (300015 CH), ANTA (2020 HK), BYD (1211 HK), CATL (300750 CH), COLI (688 HK), Link REIT (823 HK), Shenzhen Inovance (300124 CH), Shuanghuan Driveline (002472 CH) and Tencent (700 HK).

KEY RECOMMENDATIONS

Company	Rec	Share Price (lcy)	Target Price (lcy)	Upside/ (Downside) to TP (%)
Aier Eye Hospital	BUY	27.61	42.00	52.1
Anta	BUY	84.30	128.00	51.8
BYD	BUY	245.00	590.00	140.8
CATL	BUY	228.44	390.00	70.7
COLI	BUY	17.00	27.14	59.6
COSCO Shipping Port	BUY	5.04	7.07	40.3
Great Wall Motor	SELL	8.40	5.20	(38.1)
KE Holdings	BUY	41.20	70.00	70.0
Kuaishou	BUY	57.10	90.00	58.0
Kweichow Moutai	BUY	1670.60	2520.00	50.8
Link REIT	BUY	47.25	58.68	24.2
Inovance	BUY	58.81	82.00	39.4
Shuanghuan Driveline	BUY	24.050	33.00	37.2
Tencent	BUY	334.20	435.00	30.0

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	May 23 (%)	To-Date* (%)
Aier Eye Hospital	BUY	-6.3	-18.4
Alibaba	BUY	0.2	-16.3
Anta	BUY	-10.3	-24.7
BYD	BUY	5.7	5.9
CATL	BUY	-1.0	-1.0
COLI	BUY	-13.4	-15.8
CR Beer	BUY	-15.4	24.6
CTGDF	BUY	-23.7	-42.3
Shenzhen Inovance	BUY	-4.8	-4.8
Link REIT	BUY	-7.2	-25.0
Sands China	SELL	-7.0	-7.0
Shuanghuan Driveline	BUY	2.1	-8.4
Tencent	BUY	-3.4	-13.9
Tongcheng Travel	BUY	-0.2	-0.2
Trip.com	BUY	-6.1	-12.8
Weimob	SELL	1.8	-16.7
Hang Seng Index		-8.3	

**Share price change since stock was selected as alpha pick*
Source: UOB Kay Hian

PORTFOLIO RETURN

(%)	2Q22	3Q22	4Q22	2022	1Q23
HSI return	-0.6	-21.2	14.9	-15.5	3.1
Alpha Picks Return					
- Price-weighted	1.5	-5.7	-9.7	-9.4	1.4
- Market cap-weighted	3.1	-8.8	-1.9	-6.6	2.0
- Equal-weighted	0.6	-2.5	1.5	-3.8	0.3

Assumptions for the 3 methodologies:
1) *Price-weighted: Assuming the same number of shares for each stock, a higher share price will have a higher weighting.*
2) *Market cap-weighted: Weighting is based on the market cap at inception date, a higher market cap will have a higher weighting.*
3) *Equal-weighted: Assuming the same investment amount for each stock, every stock will have the same weighting.*

Source: UOB Kay Hian

ANALYST(S)

Greater China Research Team
+852 2236 6799
researchhk@uobkayhian.com.hk

VALUATION OF ANALYSTS' ALPHA PICKS

Company	Ticker	Rec	Price 2 Jun 23 (lcy)	Target Price (lcy)	Last Year End	PE 2023F (x)	PE 2024F (x)	PE 2025F (x)	Yield 2023F (%)	ROE 2023F (%)	Market Cap. (LC$m)	Price/ NTA ps (x)
BUY												
Aier Eye Hospital	300015 CH	BUY	27.61	42.00	Dec-22	51.1	41.0	32.6	0.5	19.4	198,114	31.5
Anta	2020 HK	BUY	84.30	128.00	Dec-22	21.2	17.9	15.2	2.0	29.2	238,790	4.1
BYD	1211 HK	BUY	245.00	590.00	Dec-22	26.0	16.5	11.6	0.8	19.6	269,010	6.0
CATL	300750 CH	BUY	228.44	390.00	Dec-22	24.5	18.4	13.8	0.8	21.1	1,004,342	5.8
China Overseas Land	688 HK	BUY	17.00	27.14	Dec-22	6.4	5.8	4.9	4.5	8.1	171,834	0.4
COSCO Shipping Port	1199 HK	BUY	5.04	7.07	Dec-22	7.7	7.3	6.9	5.2	5.2	17,341	0.44
KE Holdings	2423 HK	BUY	41.2	70	Dec-22	13	13.3	11.1	0	10.1	156,010	1.7
Kuaishou	1024 HK	BUY	57.1	90	Dec-22	64.4	28.4	15.1	0	-20.7	247,624	1.3
Kweichow Moutai	600519 CH	BUY	1670.60	2520.00	Dec-22	28.8	24.7	21.1	1.8	41.6	2,098,604	8.8
Link REIT	823 HK	BUY	47.25	58.68	Mar-23	19.1	17.4	16.4	5.7	3.7	116,966	0.7
Inovance	300124 CH	BUY	58.81	82.00	Dec-22	32.6	27.6	23.8	0.8	19.1	155,611	7.8
Shuanghuan Driveline	002472 CH	BUY	24.05	33.00	Dec 22	26.3	20.1	16.9	0.5	10.1	20,452	2.5
Tencent	700 HK	BUY	334.2	435	Dec-22	19.9	16.6	14.8	0	24.5	3,204,362	3.2
SELL												
Great Wall Motor	2333 HK	SELL	8.40	5.20	Dec-22	17.7	17.9	18.9	1.7	5.3	21,094	1.5

Source: Bloomberg, UOB Kay Hian
**P/B instead of PE*
***PEV instead of PE*

Aier Eye Hospital – BUY (Carol Dou/Sunny Chen)

- Aier's financial results were relatively weak in 2022 due to the COVID-19 outbreaks, but the resilient demand has boosted revenue and earnings growth in 1Q23 at 20.4% yoy and 20.7% yoy respectively. We expect Aier to deliver even stronger growth in the next few quarters in 2023, as the hospital business environment has returned to normal levels, releasing pent-up demand for eye care services after three years of COVID-19 in China. We forecast its total revenue and adjusted net earnings to increase by 30.1% yoy and 32.9% yoy respectively in 2023. Meanwhile, Aier's effective organic growth and M&A strategy will continue to fuel growth in China and overseas. It acquired 40 hospitals through its M&A funds in Nov 22 and Jan 23. Most of these newly-acquired hospitals are prefecture- or county-level hospitals, indicating its continued penetration effort in the lower-tier markets. We believe these fast-growing hospitals will allow it to form economies of scale and fuel growth in the next 2-3 years. Moreover, Aier indicated that the possible tender on OK Lenses may reduce the medical cost for patients and hospitals and hence, boost service demand and benefit it in the longer term. The increasing economies of scale will also help it to improve profitability. We believe the profit margin will improve further in the next few years as most of the company's hospitals have a relatively short operating history and will yield higher profit margins as they mature.
- Maintain BUY and DCF-based target price of Rmb42.00, assuming WACC of 10.0% and terminal growth rate of 4%.

Share Price Catalyst

- Event: a) Outstanding 1Q23 results, b) normalisation of business environment to support a robust recovery of Aier's revenue and earnings growth from 1Q23, c) strong market demand for ophthalmic medical services, and d) effective growth strategy and business model supports business expansion in China and overseas.
- Timeline: 1H23.

ANTA – BUY (Stella Guo/Ng Jo Yee)

- We like Anta given: a) the improving brand equity supported by high exposure of DTC, and b) the company's multi-brand stategy, which enables it to cater to customers' demands from different sporting segments and income groups. Our recent on-the-ground checks in Guangzhou suggest that Anta's premium brands (such as Arc'teryx) will continue to see strong sales momentum. Anta is our top pick from China's sportswear sector, as we see: a) high visibility and upside potential for GPM recovery in 2023F, b) operation improvement of Fila business (inventory turnover: <5x in 1Q23 vs 7x in 4Q22), and c) more contribution from Amer JV.

Share Price Catalyst

- Event: Potential upgrade of guidance post-2Q23.
- Timeline: 3Q23

BYD Company – BUY (Ken Lee)

- BYD's stock price was dampened by Great Wall Motor's (GWM) accusation of suspicious excessive emission of gasoline vapour for Qin Plus DM-i and Song Plus DM-I without the use of high-pressure fuel tanks. We believe the accusation is groundless, as BYD has at least two technologies to prevent excessive gasoline vapour emission of its plug-in hybrid electric vehicle (PHEV) models. Looking ahead, we expect sales and earnings to recover qoq in 2Q-4Q23 along with the sales ramp-up of the models launched in 1Q23, including the Champion versions of Qin Plus DM-i and Tang DM-i (2023), and the debuts of Champion versions of Qin Plus EV (2023), Han DM-i/DM-p, Han EV, Song Pro DM-i and Song, Plus DM-i (2023), Seagull, Seal (2023), Yangwang U8/U9 and Denza N7/N8.
- Maintain BUY with target price of HK$590.00, based on 10-year DCF (WACC: 12%/terminal growth: 4%).

Share Price Catalyst

- Event: a) Growth of monthly EV sales volume, and b) upbeat 2Q23 results
- Timeline: Jun-Aug 23

CATL – BUY (Ken Lee)

- We expect revenue to grow at 26% CAGR based on the 40% CAGR in battery sales volume. The expected strong sales volume growth will be driven by the 30% CAGR in global electric vehicle (EV) sales volume and CATL's strong product pipelines: Qilin battery, condensed battery, M3P battery, etc. Gross margin will likely recover from 1Q23 to 2Q23, as the plunge in lithium carbonate prices in 1Q23 will largely be reflected by lower COGS in 2Q23 given the 70-80 inventory days. In anticipation of a drop in lithium carbonate prices to below Rmb200,000/tonne, CATL had already cut battery prices in Feb 23 when lithium carbonate prices stood above Rmb400,000/tonne. As such, CATL will not need to further cut battery prices in 2Q23 unless there is a further drop in lithium carbonate prices. Lithium carbonate price rebounded to Rmb300,000/tonne. Based on the linked mechanism between battery material prices and battery prices, gross margin will likely remain steady.
- Maintain BUY with a target price of Rmb390.00, based on 10-year DCF (WACC: 10%/terminal growth: 4%).

Share Price Catalyst

- Event: a) Growth of monthly EV battery shipments, b) drop in lithium carbonate prices, and c) 2Q23 results.
- Timeline: Jun-Aug 23.

China Overseas Land & Investment – BUY (Jieqi Liu/Damon Shen)

- In 4M23, COLI's contracted sales grew by 71.4%yoy to Rmb117.6b. According to CREIS, COLI's sales grew by 9.5%yoy in May 23, decelerating from 67.1%yoy in April. However, COLI still outperformed most developers in the industry. With further weakening of sales recovery and China's households on the verge of deleveraging, we think the possibility of the government further easing policies is rising. With abundant saleable resources (Rmb790b in 2023), COLI will be a key beneficiary of demand side policy. Currently COLI is trading at ~0.5x P/B, close to 1.5SD below its 10-year mean.

- Maintain BUY on COLI with a target price of HK$27.14.

Share Price Catalyst

- Event: a) Further easing of policies in the property industry, and b) RRR cut.
- Timeline: 2Q-3Q23.

COSCO SHIPPING Ports – BUY (Roy Chen)

- COSCO SHIPPING Ports (CSP) is our top pick for the regional transportation sector. We like CSP for its: a) global market leadership (one of the global top five port/terminal operators by container throughput), b) well-diversified investment portfolio across Asia, Middle East and Europe with good asset quality, and c) strong backing from its parent company COSCO SHIPPING Holdings (CSH, 1919 HK), which is China's largest and a globally leading container shipping company with large cargo flow.
- The 1Q23 earnings were likely the trough for CSP due to the combinational effects of weak seasonality and the COVID-19 outbreak in China. Scrutinising the monthly throughput data of CSP, we note that most of the volume decline for the CSP portfolio was in the Jan-Feb 23 period (when manufacturing activities of China were impacted the most by the pandemic and CNY). In March and April, the container volume of CSP's China and overseas portfolios have bottomed out with low single-digit yoy growth, led by the ports/terminals with more domestic and RCEP exposures (eg the Bohai Rim port/terminals and the Beibu Gulf port). Although there are still macroeconomic uncertainties ahead for the rest of the year, we expect CSP's earnings to show sequential improvement in the next two quarters.
- Current price implies PE of 7.5x/7.2x on our conservative 2023F/24F earnings estimates and leads to attractive yields of 5.3%/5.6%. CSP's cash-rich parent CSH has been proactively buying CSP shares on the open market. Since 2 Sep 22, CSH has bought 340m shares (about 9% of CSP's issued capital) from the open market, with the latest purchase price of HK$5.90 on 10 May 23 representing a 20% upside to CSP's current price. With potential share price support/boost from major shareholder purchases, we see CSP as a safe bet which can reward shareholders with decent dividends while waiting for a turnaround in global trade outlook.

Share Price Catalyst

- Event: a) Sequential earnings improvement in the next two quarters, and b) major shareholder purchases in the open market.
- Timeline: 2Q23-3Q23

Great Wall Motor – SELL (Ken Lee)

- Great Wall Motor (GWM) has been losing market share to BYD's plug-in hybrid electric SUVs such as Song Plus DM-i and Song Pro DM-I since a couple of years ago. BYD's launches of the Champion versions of Song Pro DM-i and Song Plus DM-i will further take market share from GWM. Although GWM is also launching its plug-in hybrid SUVs such as Xiaolong, its plug-in hybrid technology is still lagging behind BYD. Meanwhile, GWM is coming under increasing pressure to cut its fossil-fuelled SUVs such as Haval H6.
- Maintain SELL with target price of HK$5.20, based on 11x 2023F PE (on a par with historical mean one-year forward PE).

Share Price Catalyst

- Event: a) Disappointing 2Q23 results, b) disappointing monthly sales, and c) further price cuts.
- Timeline: Jun-Aug 23

KE Holdings – BUY (Julia Pan)

- During 1Q23, there was a solid resurgence in the Chinese housing market, primarily driven by the release of pent-up demand in home construction and favourable leasing policies. The existing home sector played a pivotal role in contributing to the market's growth, with the Tier 2 cities demonstrating particularly strong performances. For 2Q23, total revenue is projected to surge 35-40% yoy to Rmb19b, while GTV is forecasted to ramp up by 25-30% yoy. This is primarily bolstered by revenue growth of 20%/25-30% from existing home and new home transaction services respectively. Renovation business is guided to contribute 20-25% of total revenue, mainly underpinned by resilient contract performance in 1Q23 which will stimulate revenue growth in 2Q23. Beike held c.Rmb78b in net cash as of Mar 23, equivalent to 60% of its current market cap. Management commented that 70% of its cash holdings are offshore. As of Mar 23, Beike had repurchased 16.2m ADSs with a total consideration of US$229mn, out of its US$1b share repurchase program effective from Sep 22 to Aug 23. After its 1Q23 results, Beike has resumed its share repurchase program, buying back Rmb1.29m ADSs at a consideration of US$20m in May 23. Management is commited to sustain the repurchase pace in the near term, and also considering other ways to pay back to shareholders after its GAAP profit turns positive in 2023.
- Maintain BUY with a target price of HK$70.00 (US$26.00), using unchanged 22x PE against average earnings of 2023/24, implying a 0.9x 2023 EV/Sales. Beike is trading at 0.7x 12-month forward EV/Sales, 0.7SD below its historical mean of 2.4x.

Share Price Catalyst

- Event: Potential restricted loans for real estate enterprises and the three red line policies would be loosened.
- Timeline: Late-Jun 23.

Kuaishou – BUY (Julia Pan)

- The resilient top-line growth momentum in 1Q23 was anchored by online marketing services revenue growth of 15% yoy to Rmb13.1b amid moderate macro recovery. E-commerce gross merchandise value (GMV) grew 28% yoy while revenue jumped 51% yoy to Rmb2.8b, primarily due to Kuaishou starting monetisation for product matching for key opinion leaders (KOL) through the KOL distribution channel. Looking into 2Q23, management guided for revenue to ramp up by mid-twenties, while non-GAAP net profit was guided to be in the range of Rmb1.2b-1.3b, thanks to lower marketing expenses (around 32% of revenue vs 40% in 2Q22) and continuously narrowing overseas losses. External performance ads are expected to resume positive growth in 2H23, in light of upcoming events such as the 618 promotion, refined channel policies, summer break period and peak season for gaming clients. By improving coordination between the front-end business and the product and algorithm teams, Kuaishou has expanded its advertising reach to a wider audience in the gaming, social networking, and financial sectors. In addition, the launch of the store-wide return on investment (ROI) product in March validated the model and paved the way for a large-scale rollout in 2Q23. We remain optimistic on the company due to resilient growth in live-streaming and ad recovery momentum.
- Maintain BUY on the company with a target price of HK$90.00. Our target price implies 1.8x 2023F PE. The company is currently trading at 2x 12-month forward EV/Sales, below its historical mean of 4.4x.

Share Price Catalyst

- Event: a) Higher monetisation rates across all categories, b) less competition from peers, positive government policies to simulate consumption, and c) lifting of regulations on internet platforms.
- Timeline: 1H23.

Kweichow Moutai – BUY (Ng Jo Yee/Stella Guo)

- Despite the overall weakness in external environment, demand for premium baijiu, especially Moutai, continues to be the least affected as evidenced by the low successful purchase rate on the i-Moutai app and the solid wholesale prices. We are confident that the company will be able to achieve its revenue growth target of 15% yoy and realise higher profitability (net margin improvement of 0.5ppt yoy). Moutai has the highest earnings visibility and strong brand pricing power among our baijiu coverage and we recommend investors to accumulate on the dip. Our DCF-based target price of Rmb2,520 implies 43.4x 2023F PE (around +2.5SD of historical mean).

Share Price Catalyst

- Event: a) Increasing wholesale prices leading up to the mid-autumn festival, and b) national day holidays.
- Timeline: 3Q23.

Link REIT – BUY (Jieqi Liu/Damon Shen)

- The Hong Kong portfolio had a resilient performance. For FY23, Link's retail revenue grew by 3.6% yoy to HK$7,341m, supported by 7.1% rental reversion (vs +4.8% in FY22). Occupancy rate reached a historical high of 98%. Retail and office portfolios in mainland China saw a negative rental reversion of -3% and -14.5% respectively in FY23. Meanwhile, interest expenses increased by Rmb749m or 74.5% yoy in FY23, mainly due to: a) average funding cost edging up to 3.0% for FY23, from 2.3% for FY22, and b) total interest-bearing liabilities growing 30.9% yoy to HK$65.7b. Thanks to the rights issue in Mar 23, gearing ratio decreased to 17.8% from 22.0%. Link expects mild positive rental reversion for the Hong Kong and China retail portfolios, and there is no refinancing need for the next 12 months, leading to less pressure from rising interest rates. We revise down our forecast for FY24/25 DPU by 8.1%/8.0% respectively to HK$2.63/HK$2.79, to factor in higher-than-expected funding cost. Link REIT is currently trading at 5.8%/6.1% FY24/25 dividend yield. Our target price implies 4.5% FY24 dividend yield.
- Maintain BUY on Link REIT with a lower target price of HK$58.68.

Share Price Catalyst

- Event: a) Recovery of mainland retail sales, and b) slower-than-expected interest rate hike.
- Timeline: 2Q-3Q23.

Shenzhen Inovance – BUY (Johnny Yum)

- We expect domestic leaders such as Inovance will continue to benefit from an ongoing substitution trend despite increased efforts from foreign competitors to expand share in China, as: a) we believe the import substitution trend is irreversible with domestic leaders gradually catching up in technology, and b) domestic manufacturers now heavily favouring a shorter supply chain and highly customizable solutions provided by domestic players. As such, Inovance as the most dominant automation components/solutions provider will be one of the biggest beneficiaries in the following automation upcycle. Inovance is also expanding overseas, targeting to achieve 20% contribution from its overseas business in five years' time, a significant expansion vs the 4% revenue contribution in 2022. Currently, our target price on Inovance is Rmb82.00, based on 45.5x 2023F PE, 0.5x SD above mean. While the slowdown in China's manufacturing activities in April and May turned out to be worse than expected, we believe the negatives are already reflected in the price, and the recent price correction provided a window to accumulate its share for mid- to long-term investment.

Share Price Catalyst

- Event: Monthly updates on new orders.
- Timeline: Jun 23.

Shuanghuan Driveline – BUY (Johnny Yum)

- Shuanghuan Driveline (SHD) is one of the largest third-party EV gear manufacturers globally, with exposure to all key EV OEMs such as Tesla, BYD, Nio, Xpeng and Li Auto. Due to the industry's high-entry barrier, and SHD's unparalleled operating scale thanks to its first mover advantage, SHD managed to maintain a stable ASP in the past two quarters despite the intensifying price war among EV OEMs, registering a robust 44% yoy earnings growth in 1Q23. Going forward, we expect auto OEMs and tier-1 manufacturers to expand their EV gear outsourcing rate for further cost reduction, and SHD as a leading third-party gear manufacturer will be the biggest beneficiary.
- Maintain our BUY recommendation for SHD with a target price of Rmb33.00, based on 36x 2023F PE. This implies 1x PEG vs our assumption of 35.5% net profit growth for 2023, and also 0.5SD above its historical mean PE.

Share Price Catalyst

- Event: Resilient pricing and strong margins in 2Q23.
- Timeline: 2Q23.

Tencent – BUY (Julia Pan)

- Tencent's 1Q23 results demonstrated imminent recovery momentum, with resilient growth of 10.8%/16.5%/11% yoy in online games/online ad/fintech and cloud. To date, Tencent has received 13 approvals since the normalisation of China game approvals in Dec 22. The appealing content from Tencent leads to increased investment of time and money by players. Tencent expects to see a normalised trend of regulations upon the finalisation of inspections. It also expects to see additional devotion of resources from regulators to promote healthy development and innovation of the overall industry moving forward. The company prioritises the acquisition of high quality data across the internet and content within Tencent's ecosystem. Tencent is also actively scaling up its optimisation efforts throughout the entire training production line. Leveraging its robust infrastructure in the cloud business, the company announced the introduction of a high-performance computing cluster powered by 100 graphics processing units (GPUs) which significantly enhances training efficiency. We model revenue growth of 14% in 2023, bolstered by yoy growth of 12%/20%/18%/6% in online game/advertising/FBS/social network revenue.
- Maintain BUY for the company with a target price of HK$435.00, which implies 25.8x PE based on 2023 EPS. The company currently trades at 18.3x 12-month forward PE, 1.3SD below its historical mean of 28x.

Share Price Catalyst

- Event: a) Improving online advertising from Wechat video account, b) game licence approval, and c) collaboration with various internet platform operators on Tencent's WeChat ecosystem.
- Timeline: 1Q23.

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK has provided investment banking services to China Resources Mixc Lifestyle Services (1209 HK) and has received compensation for such services in the preceding 12 months. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore.Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

http://research.uobkayhian.com

RCB Regn. No. 197000447W